Statement of
The Honorable Eleanor Holmes Norton
Subcommittee on Economic Development, Public Buildings,
And Emergency Management
"The Credit Crunch: A Hearing on the Effects
on Federal Leasing and Construction"
July 30, 2008

I welcome the witnesses to today's subcommittee hearing concerning the tightening credit market, which originated in the subprime mortgage crisis, and on other economic factors affecting Federal leasing and construction in the commercial marketplace.

GSA is perhaps the largest customer for office space in the real estate market in the United States. GSA leases slightly more space than it owns, approximately 176 million square feet of leased office space, housing over 700,000 employees compared with 175.5 million square feet of owned space, providing office space for 640,000 Federal workers. The Federal inventory ranges from 2,500 square foot border crossing stations, to million one square foot courthouse complexes in major metropolitan areas. GSA's stake in maintaining its strong market position is high, particularly in the leasing market, in light of the continuing shift to Federal agency leased space.

At this hearing we seek to learn how developers, building owners, lenders, and construction companies, who are accustomed to unimpeded access to credit, position themselves in today's puzzling market. We have concerns, even though the strictly competitive system for Federal commercial awards guarantees that only the most credit worthy need compete. When I began talking with experienced developers and building owners as the subprime mortgage crisis worsened, their strong credit standing with lenders and the lengthy time frames and lead time for construction or leasing left them pretty much unworried.

However, since then, seven banks have closed, particularly IndyMac, which had significant home ownership loans. It seems doubtful that a departure as unprecedented as a mountain of bad, securitized subprime mortgages sold in an unregulated global market, can be contained. Today, a year after the housing crisis became full blown, even the largest banks, whose customers also significantly include commercial real estate, are showing record profit losses. Although many of the players in today's commercial marketplace remain untouched for now, experts say that today's crisis is unmatched since The Great Depression. The nation's largest bank, the Bank of America, has experienced a large increase in bad small business-related loans and recently took a 41% reduction in profit. Some analysts have raised the possibility that commercial loans could be a "ticking bomb." Some also predict that this quarter may mark a turning point, with lending flat, down from record highs.

However, the best evidence that something that cannot be ignored is afoot are recent actions of the Federal Reserve and of Congress, who have moved to quell the perfect storm of a housing downturn crisis, on which economic growth has been disproportionately dependent for years, double digit increases in many basic food products, and indeterminate gas increases. Driven by the economy itself rather than any piece of it, President Bush has thought better of his threat to veto the most far reaching housing bill in decades. This subcommittee has an obligation to look now at whether there is or could be a metastasis of the housing crisis and other economic problems that could surface in the commercial sector and what, if anything, could be done about it.

A credit crunch typically refers to factors that lead lenders to reduce the available credit by declining to make loans or doing so only at increased costs, or with special terms, even for those who are credit-worthy. The uncertainty about the losses from the subprime mortgage crisis still playing out with mortgage lenders has caused the credit markets to shrink considerably. Although Federal leases and construction contracts might be said to be "worth their weight in gold," private sector competitors don't have that assurance when they compete for a lease or construction contract. If credit becomes too difficult or costly, commercial office space available to the Federal government could diminish or allow too few to take the risk of competing, raising costs to taxpayers.

GSA's reliance on the commercial office space market to house Federal agencies ties the agency directly to commercial market conditions. The agency must begin to use its prime position in the commercial market place by leveraging its buying power, and capturing its great potential for reduced costs to taxpayers. For example, in FY 2005-2008, the FBI presented the subcommittee with 23 leases, its largest group of long term leases. As a result, the subcommittee has indicated that it wants GSA to look very closely at a comprehensive lease package for agencies like the FBI, which have long term viability in metropolitan areas. Almost all the FBI leases will be built to suit the agency, but already GSA has seen a reduction in competitors for these FBI leases. We must discover why this is so and whether it constitutes the beginning of a trend.

In today's atmosphere of soaring budget deficits and rising costs for all concerned, GSA also must work collaboratively with the private sector to reduce the cost of acquiring commercial office space. By working with our private sector partners to achieve the vision and know-how necessary to cut costs across the board, together we have the potential to help stimulate the local and national economy while addressing the needs of the Federal government. Today we are pleased to hear from the GSA, and financial and economic experts on the commercial markets and office development.